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RAILROAD SUBSIDIES

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RAILROAD SUBSIDIES

AMERICAN RAILROADS, with revenues declining and competition from other forms of transportation rising, are caught in a financial squeeze more severe than any since the Great Depression. As in the 1930s, doubt about the ability of the rail carriers to survive without public assistance is widespread. In fact, the outlook for the railroads is viewed more gloomily in many quarters today than it was a quarter-century ago.

Jervis Langdon, Jr., president of the Baltimore & Ohio, asserted recently that nationalization of the railroads could not be avoided unless there was "pretty rapid action by the government." [1] A joint statement on Nov. 8 by James M. Symes, chairman of the Pennsylvania, and Alfred E. Perlman, president of the New York Central, announcing their intention to seek a merger of the country's largest and second largest rail systems, said ominously: "Time to assure maintenance of rail transportation as a private enterprise is running out, and we have no choice but to try every means at hand to help our companies better their ability to compete more effectively in the transportation field and to avoid government ownership."

Inadequacy of Current Railroad Earnings

The Association of American Railroads pointed out last spring that current railroad earnings were "not adequate to service the cost of the capital invested in them, let alone to provide the supplements to depreciation charges necessary for essential capital improvements." [2] As the table on the following page shows, the combined net railway operating income of the country's 108 Class I railroads—those with gross annual revenues of $3 million or more—exceeded $1 billion as recently as 1956 but had fallen below $600 million by 1960. Similarly, the average rate of return for Class I roads dropped in the same period from almost 4 per cent to barely more than 2 per cent. The figures for the

[1] Address at meeting of 10 state governors in New York City, Oct. 25, 1961.

[2] J. Elmer Monroe, *A Review of Railroad Operations in 1960* (April 1961), p. 5.

first nine months of 1961 indicate continuation of this steady downhill march.

RAILROAD INCOME AND RATE OF RETURN, 1955-60

Year	Net operating income *(millions of dollars)*	Rate of return *(after depreciation)*	Net income *(millions of dollars)*
1955	1,128	4.22%	927
1956	1,068	3.95	876
1957	922	3.36	737
1958	762	2.76	602
1959	748	2.72	578
1960	584	2.13	445
1961 (9 mo's)	317	1.71*	182

* 12 months through September 1961.

SOURCE: Association of American Railroads, Bureau of Railway Economics.

It is not unlikely that President Kennedy will send a transportation message to Congress next year that will include proposals for federal aid to the railroads. A Commerce Department report on national transportation policy was forwarded to the White House early in November. Though not made public, the report is believed to touch on the question of direct subsidies to railroads, particularly railroads with heavy commuter traffic. National defense considerations may determine whether, or how much, federal assistance will be offered. During World War II the railroads carried 90 per cent of all military freight traffic and were responsible for 97 per cent of organized troop movements.[3]

COMPETITION OF UNREGULATED FREIGHT CARRIERS

Railroads are not the only transportation lines now in trouble. Net income of motor carriers, the railroads' chief competitor for freight traffic, declined by more than 40 per cent between 1959 and 1960. And Malcolm A. MacIntyre, president of Eastern Air Lines, predicted, Oct. 13, that 1961 would be "the biggest red ink year, barring none" for the airlines.[4]

The plight of all carriers may be attributed in part to high labor and modernization costs and to an oversupply of transportation facilities. The railroads in particular have suffered also from expansion of unregulated freight

[3] The president of the Northern Pacific asserted, Oct. 14, that railroads today "do not have the necessary equipment reserve that would be required in event of war."

[4] The 11 domestic trunk airlines had a combined loss of $15.3 million in the first seven months of 1961. Their profit in 1960 was only $1.2 million, down from $63 million in 1955.

traffic. The traffic not subject to regulation by the Interstate Commerce Commission includes shipments by manufacturers of their own products in their own trucks; cargoes of barges or ships which carry no more than three bulk commodities at one time; and transport of agricultural products, most of which are exempt from regulation when carried by truck in interstate commerce.[5]

Decline in Freight Loads of Regulated Carriers

The bulk commodity exemption for water carriers and the agricultural commodity exemption for motor carriers do not apply to the railroads. A railroad study published last spring stated: "In the past the railroad industry has stood for repeal of these exemptions. But today railroads stand for equality—either by repeal or by extension of the bulk commodity exemptions to railroads." [6]

I.C.C. Chairman Everett Hutchinson told a Senate Commerce subcommittee last Aug. 30 that the share of intercity freight ton-miles handled by all regulated common carriers (rail and other) dropped from 75 per cent of the total in 1939 to 67.5 per cent in 1959 and threatened to fall below 64 per cent by 1970. Each percentage point of decline in the later period will be equivalent to 19.5 billion ton-miles.

Sharp Drop in Number of Railroad Passengers

Railroad passenger traffic, which during World War II reached levels not touched since the early 1920s, resumed after the war a decline that had been set in motion originally by an upsurge in use of automobiles after World War I. In 1946, when the volume of military travel was still extensive, the railroads carried 790 million passengers. By 1960 the number of passengers carried by rail had fallen to 320 million, and 60 per cent of the total was made up of commuters. Between 1946 and 1959 the proportionate share of commercial passenger traffic going to the railroads fell from 66 to 25 per cent, while that going to the airlines rose from 6 to 42 per cent.[7] Private automobiles

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[5] "The advantage [unregulated carriers enjoy] over common carriers is illustrated . . . by a Midwest piano manufacturer. It bought a fleet of refrigerated trucks. Why for pianos? Because, after delivering the pianos at Seattle, the refrigerated trucks pick up the farm produce of the Northwest—unregulated by the I.C.C. and hence available to private carriers—and haul it back to the Midwest for less than the regulated rate of the common carriers."—Arthur Krock, *New York Times*, July 7, 1961, p. 24.

[6] Association of American Railroads, *Magna Carta for Transportation* (March 1961), p. 89.

[7] *Ibid.*, p. 15.

accounted in 1959 for 90 per cent of intercity passenger traffic as measured by passenger-miles traveled.[8]

Efforts by the railroads to stem the flight of passengers, or to minimize the loss of passenger revenue, have had little effect. Such measures as fare increases and service curtailments have worked only to divert more travelers to the highways and airways. Commuter service is a particularly burdensome problem. It costs the railroads about $1.50 for each dollar received in commuter fares because the service is concentrated in two peak traffic movements a day and commuter fares are lower than standard fares. Deficits have had to be met out of freight earnings, which have barely held their own.

The experience of the New York, New Haven & Hartford Railroad, in bankruptcy since last July, illustrates the severe financial stresses bearing upon those rail lines which are heavily dependent on passenger revenues. As recently as 1959 the New Haven's passenger service accounted for 43 per cent of its operating revenues, 49.5 per cent of its operating expenses, and 70.8 per cent of its total train-miles. Opening of the 129-mile Connecticut Turnpike in January 1958 appears to have been an important factor in the New Haven's financial downfall. The turnpike (and its New York extension called the New England Thruway) runs directly alongside the New Haven's tracks through much of the heavily populated area between New York and New Haven and continues across Connecticut toward Providence, Boston and other communities served by the New Haven's main line. In 1957, last year before the turnpike opened, the New Haven carried 45 million passengers; the 1960 total was only 30 million. In the same period, the number of carloads of revenue freight hauled by the railroad dropped from 775,840 to 634,599.

State and Local Aid to Commuter Rail Lines

Aid from state and local governments has done little so far to ease the New Haven's chronic financial trouble. It was not until Nov. 1 of last year that representatives of Connecticut, Massachusetts, Rhode Island, New York State, New York City and Westchester County (N.Y.)[9] agreed on a $6.2 million program of tax relief for the line. Even

[8] The number of private automobiles registered in the United States rose from 28 million in 1946 to 59 million in 1960.

[9] This group is known as the Interstate Staff Committee on the New Haven Railroad.

with this aid, the New Haven's operating deficit for the first nine months of 1961 was almost $5 million larger than for the comparable period of 1960. A federal loan of $7.5 million, authorized by a federal judge but not yet approved by the I.C.C., would tide the railroad over until next June. At that time, the railroad's trustees have announced, another $7.5 million loan will be needed. Without such assistance, one trustee has said, the New Haven "would have to be taken over by another railroad with longer lines."

The Long Island Rail Road, which carries more passengers than any other railroad in the country, has been more successful than the New Haven in coping with its financial difficulties. Back in 1954 the Long Island took its case to the New York legislature, and a complicated plan, requiring cooperation from all sides, was worked out. The plan allowed the railroad to raise fares whenever income fails to meet expenses; a system of state and local tax forgiveness was arranged; the parent Pennsylvania Railroad agreed to forgo for 10 years any return on a $120 million investment in new equipment. The Long Island thus was enabled to undertake a $65 million rehabilitation program which transformed a rundown line into a modern and efficient passenger carrier.

In New Jersey, several commuter lines have entered into contracts under which they receive direct subsidies from the state in return for a pledge to retain essential commuter services. The payments are based on the number of commuters carried daily and the number of miles they travel.

Proposals for Federal Aid to Ailing Railroads

Washington's concern over the plight of the railroads has given rise to proposals for direct assistance to needy lines by the federal government. In a report made public Aug. 30, the I.C.C. recommended a program of federal subsidies, together with state and local aid, to help cover railroad passenger deficits. If all lines eligible for the proposed subsidies applied for and received them, the initial annual cost to the federal government would be about $52 million. The report cited population growth, especially in large metropolitan areas, as a justification for subsidies.

> Rail commutation service will be far more essential and much more widely used 10 years from now than it is today, assuming that it is still available. Moreover, population trends . . . suggest that

> some intercity rail passenger service could become increasingly competitive with transportation by air. Inasmuch as rail facilities, once lost, cannot be reconstructed except at a fantastic cost, it would be the height of folly to determine the essentiality of rail service solely on the basis of present patronage and without regard to definite future needs.[10]

The I.C.C. report noted that a subsidy program should be administered with great caution. It should not "dull managerial incentives to cut losses" nor require the federal government to "establish passenger train schedules or to prescribe standards of service and equipment." The sums to be disbursed "should be determined primarily in accordance with a generally accepted formula" and be large enough to "insure the continuance of passenger operations required by the public convenience and necessity." On the other hand, subsidies should not be so large as to encourage continuance of clearly non-essential service. "We do not retreat," the report stated, "from our position that the subsidization of transportation enterprises by the federal government is generally undesirable except to the extent clearly justified by compelling considerations of national defense."

Plan for Federal Transportation Commission

An earlier rail subsidy proposal was embodied in a plan to reorganize the federal agencies which regulate transportation. A Senate Commerce Committee staff study, completed last January, recommended creation of a Federal Transportation Commission to exercise the powers of economic regulation held by the I.C.C., the Civil Aeronautics Board and the Federal Maritime Board. The study proposed establishment of a federal Department of Transportation to carry on the executive and promotional functions of the regulatory agencies. Other recommendations called for direct federal loans to rail commuter lines for capital improvements and federal legislation to exempt interstate rail carriers from state property taxes on their rights of way.

President Eisenhower urged creation of a Department of Transportation in his final budget message last Jan. 16. Gov. Nelson A. Rockefeller of New York made a similar proposal in testimony before the Senate Commerce Com-

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[10] The American Municipal Association has estimated that it would cost $31 billion to build the new highways that would be required to handle additional motor traffic if rail commuter service were abandoned in the Boston, Chicago, Cleveland, New York and Philadelphia areas.

mittee on Sept. 11. Congressional reaction to the proposal has been cool.

Attitude of Rail Management Toward Subsidies

Railroad management has divided opinions about federal subsidies. Executives of eastern roads have been more receptive to the idea than those of western and southern lines, which are less dependent on passenger revenues and generally in better financial condition. The subsidy program recommended by the I.C.C. at the end of August was welcomed by Allen J. Greenough, Pennsylvania Railroad president, with the "hope that the Kennedy administration endorses such a program and that Congress will move quickly in enacting it into law." George Alpert, former president of the New Haven, said: "It is the most heartening news I have heard in close to six years."

On the other hand, Ben W. Heineman, chairman of the Chicago and North Western Railway, said his line "has been and still is opposed to direct federal grants to railroads." Clair M. Roddewig, president of the Association of Western Railways, expressed a view long held by rail management when he declared: "If Congress will pass legislation to give the railroad industry equality of competitive opportunity with other modes of transportation, financial health of the industry could be restored very quickly."

Rail executives frequently assert that airlines, trucks and water carriers benefit from hidden subsidies through use of tax-built, tax-maintained facilities.[11] The railroads have estimated that federal, state and local governments have spent $162 billion—$60 billion of it since 1955—on highways, waterways, airways, airports and related facilities used by commercial carriers, and on airline subsidies. By contrast, rail officials point out, the railroads have to pay for upkeep of a huge physical plant built at their own expense and subject to heavy state and local taxation.

> The principal adverse effect of . . . transportation subsidies is upon the national interest in preserving a strong, efficient and self-supporting railroad industry under private ownership. To the extent that massive subsidies to their competitors deprive the railroads of traffic which would move more economically by rail, the reduced traffic volume in relation to the inherent fixed-cost characteristics of railroad transportation leads to higher unit costs

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[11] See "Condition of American Railroads," *E.R.R.*, 1958 Vol. I, pp. 9-11.

GOVERNMENT AID TO ALL TYPES OF TRANSPORTATION *
(in millions of dollars)

Year	Federal aid	State and local aid	Total
Up to 1955	20,306	81,061	101,367
1955	1,049	6,592	7,641
1956	1,201	7,445	8,646
1957	1,944	7,894	9,838
1958	3,114	7,778	10,892
1959	4,012	7,621	11,633
(est.) 1960	3,756	8,103	11,859
Totals	35,382	126,494	161,876

* Includes expenditures on highways, inland and intracoastal waterways, Great Lakes and coastal harbors, airways, airports and subsidies to airlines.

SOURCE: Association of American Railroads, Bureau of Railway Economics.

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and higher rates and charges on the remaining traffic. This vicious spiral worsens as governmental expenditure programs for the promotion and subsidy of competing modes increase in size and scope.[12]

Railroads received extensive subsidies in the form of land grants, mostly in the years 1850-70. In the 1862-66 period alone, more than 100 million acres of public land were turned over to railroad companies. Altogether, the roads received about 183 million acres of state and federal lands. Rail officials assert, however, that less than 10 per cent of today's track mileage was built with the aid of land grants, and that rate concessions made to the federal government in consideration of the grants amounted to almost 10 times the original value of the land.[13] Indirect subsidies to railroads have included payments in excess of services rendered under contracts for carriage of mail. The Transportation Act of 1958 provided for federal guarantees of loans to railroads upon approval of the I.C.C. Other provisions of the act facilitated abandonment or curtailment of unprofitable train service.

Railroad officials believe that if all forms of commercial transportation were treated alike with respect to subsidies, regulation and taxation, the problems of the rail carriers would become manageable. They have said, moreover, that "Our entire transportation system would be eco-

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[12] Association of American Railroads, *Magna Carta for Transportation*, p. 65.

[13] The railroads place the value of the land they received at $130 million and estimate the value of the rate concessions, through 1946, at $1.2 billion. Legislation enacted in 1945 provided for discontinuance of the rate concessions.

nomically stronger, not weaker, if fully compensatory user charges were established for all commercial carriers who use the public's highways, waterways and airway facilities." [14]

With this objective in mind, the railroads have proposed that Congress create a National User Charge Commission. The commission would estimate the total cost of direct and indirect federal aid to all forms of transportation, for specified periods, and determine the kind and amount of charges to be paid by users of the respective facilities to reimburse the government. Adoption of any such proposal is highly unlikely, especially at a time when motor and air carriers are experiencing financial difficulties of their own. The trucking industry maintains, furthermore, that it bears its full share of the cost of building and maintaining public roads through its payment of registration fees, gasoline taxes and other charges.

Government Operation of the Railroads

RAILROADS in the United States, though privately owned, are under strict government regulation. Federal regulation began in 1887 when the Act to Regulate Commerce laid down various stipulations about railroad passenger fares and freight rates and the handling of traffic and set up the Interstate Commerce Commission to oversee application of the new provisions of law. Regulation was hampered for years by litigation and inadequacy in the powers of the regulatory authority. Strengthening amendments added to the original law in 1906, 1910 and 1920 brought about a gradual increase in the powers and prestige of the I.C.C. Under the Transportation Act of 1920 the commission finally gained full rate-making authority. Its regulatory powers, originally confined to rail carriers, were extended in 1935 to interstate motor carriers of passengers and property and in 1940 to coastwise, intercoastal and inland water carriers.[15]

[14] J. Elmer Monroe, *op. cit.*, p. 10.

[15] Jurisdiction had been extended to express companies, sleeping-car companies and certain pipelines in 1906 and to telephone, telegraph and cable companies in 1910. Jurisdiction over wire carriers was transferred to the Federal Communications Commission in 1934. Regulation of airlines was placed in the hands of a separate authority as soon as initiated under the Civil Aeronautics Act of 1938.

When the Interstate Commerce Commission was established three-quarters of a century ago, the railroads monopolized both short and long-haul freight and passenger traffic. That situation, modified to a significant extent only by the building of interurban street car lines in the early 1900s, continued through World War I. The rail carriers began to encounter competition from private automobiles and from intercity bus lines and trucking companies in the 1920s, and from domestic airlines in the 1930s. Gasoline rationing and war transportation demands restored heavy passenger and freight loads to the rails in the first half of the 1940s, but thereafter all semblance of the old rail transportation monopoly vanished. Its demise led railroad men to complain increasingly of "over-regulation" and to seek freedom to battle with their competitors as they chose for a bigger share of the total transportation market. Skepticism about their ability to regain large amounts of traffic, however, makes government aid, even government take-over, loom on the horizon.

Government Operation in and After World War I

Government operation of the railroads would not be an entirely new experience for the United States. The federal government operated the railroads for more than two years at the time of World War I. After the United States entered the war in April 1917, an attempt was made to fit the railroads, through measures of voluntary cooperation, for the added tasks confronting them.[16] But without a federal guarantee against losses from pooling of equipment and supplies and from diversion of traffic to competitors, it proved impossible to achieve the degree of unification needed for efficient traffic movement. To attain that end and reduce the prevailing traffic congestion, President Wilson took possession of the railroads, the day after Christmas 1917, under the authority of a provision of the Army Appropriation Act of 1916.

Operation of the carriers was entrusted to a United States Railroad Administration headed by Secretary of the Treasury William G. McAdoo as Director General of the Railroads. The Federal Control Act of March 21, 1918, authorized the President to enter into agreements guaranteeing the carriers annual compensation not to exceed the average of their net railway operating income in the

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[16] See "Government Ownership of Railroads," *E.R.R.*, 1938 Vol. I, pp. 237-240.

three previous years. No carrier was to pay dividends in excess of its regular rate during that period. The President was empowered to fix passenger fares and freight rates, subject to modification by the I.C.C., and to require carriers to make additions and improvements.

For 26 months—from January 1918 through February 1920—the country's railroads were operated by the Railroad Administration as a single system. Rolling stock and other facilities were used without regard to ownership, and movement of traffic was regulated by the standard of the public interest. While the activities of the Railroad Administration have been a subject of considerable controversy, it is generally conceded that the primary purpose of bringing about free movement of traffic was successfully accomplished.

The high degree of unification achieved was indicated by the reduction of freight traffic congestion. Accumulation of traffic at terminals reached a peak in May 1917, when there was a shortage of 164,000 freight cars. At the war's end in November 1918, the shortage had been cut below 15,000 cars, despite an enormous increase of freight traffic in the intervening period. The reduction was effected in part through such costly expedients as moving box cars empty from the eastern seaboard to the western states.

Director General's Estimate of Wartime Control

In his *War History of American Railroads*, Walker D. Hines, who succeeded McAdoo as Director General in January 1919, computed the average annual cost of operating the railroads under federal control at $4.4 billion, or 83 per cent more than the average annual operating cost of $2.4 billion during the three-year "test period" of 1915-17. Hines pointed out, however, that because of the expansion of traffic in 1918 the increase in unit cost under federal control was much less than the 83 per cent increase in aggregate cost. He asserted that the rise of operating costs on the railroads was "not out of line with increases in cost in private industry during the war period." Hines noted that the system of wartime government control "did not have the advantage of permanency and certainty." On the contrary, in all matters of improvements the Railroad Administration had "virtually to adopt a policy of marking

time, a thing detrimental to any enterprise, public or private."

Proposals for Nationalization of U.S. Railroads

While public opinion predominantly favored return of the railroads to private control after the war, organized labor and various farmers' organizations campaigned for continued public operation and for transfer of ownership of the roads to the federal government. A plan advanced in February 1919 by Glenn E. Plumb, counsel of the Associated Railway Employees of America, contemplated operation of the carriers by a National Railways Operating Corporation, managed by a board of directors of 15 members representing rail employees, rail management, and the public. The federal government was to buy the railroad properties and lease them to the operating corporation. The I.C.C. was to retain power to regulate rates. A bill embodying the Plumb Plan was offered in the House of Representatives in August 1919 but did not come to a vote.

The question of nationalization again came to the fore during the depression, when 36 Class I railroads went into bankrupcty. In his first report as Federal Coordinator of Transportation,[17] Joseph B. Eastman (on leave as an I.C.C. commissioner) asserted in 1934 that "When an industry becomes so public in character that such intimate regulation of its affairs becomes necessary, in strict logic it would seem that it should cease to masquerade as a private industry and the government should assume complete responsibility, financial and otherwise." Eastman refrained from recommending immediate action to take over the railroads—"for the principal reason that the country is not now financially in a condition to stand the strain of an acquisition of these great properties."

The Federal Coordinator nevertheless drew up a detailed plan setting forth means by which government ownership and operation might be accomplished. The plan called for creation of a federal corporation to take over and manage the rail carriers. Management of the corporation would be entrusted to a board of five trustees, three of whom would be appointed by the President and two selected by railroad

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[17] The Federal Coordinator, appointed under the Emergency Transportation Act of June 16, 1933, was directed to work for elimination of unnecessary duplication of rail services and facilities, to promote financial reorganization of distressed carriers, and to make studies and plans looking to improvement of all forms of transportation. The act, twice extended, expired on June 16, 1936.

security holders. Railroad properties would be acquired by the corporation through an exchange of securities.

The most recent proposal for nationalization came from Michael Quill, president of the Transport Workers Union of America. In his annual report to the union, Sept. 30, Quill called for "socialization" of all ground and air transportation and of all public utilities as a way "to avoid a complete breakdown of our mass transportation system." He asserted: "The government is pouring [out] millions of tax dollars to beef up railroad companies. This is itsy-bitsy control by government. We might as well have full control." However, Labor Secretary Arthur J. Goldberg told union delegates on Oct. 2 that socialization "sometimes creates more problems than it solves."

Railroad Efforts to Improve Position

SINCE 1945, American railroads have invested more than $16 billion in new facilities. Of this sum, $5.5 billion has been spent for freight cars, $4 billion for locomotives, $900 million for passenger cars, and $715 million for traffic control and communications systems. Diesel-electric units today account for more than 97 per cent of all locomotive hauling. Freight cars, although fewer in number than during World War II, have increased in over-all capacity by 8 per cent since 1944.[18] Installation of central traffic control equipment has allowed operation of more trains per track, hence less trackage. Other improvements are slowly appearing. But the railroads lack the funds needed to install new facilities on a truly industry-wide basis.

Economies, Promotional Efforts, Merger Plans

To make it easier to obtain funds for modernization, the railroads have undertaken programs aimed at cutting costs and recapturing lost business. Economies include crew layoffs, early retirement of personnel, administrative savings, and sale of unneeded track and passenger stations.[19] To

[18] Statistics supplied by Association of American Railroads, Bureau of Railway Economics.

[19] The New York Central, for example, plans to sell about $14.5 million worth of surplus land and buildings this year to save on property taxes and maintenance costs. Since 1957 the line has sold 345 stations, 57 of them so far this year.

win back lost business, the roads have slashed freight rates whenever permitted by the I.C.C. and speeded up freight service.

Because of its low revenue yield, passenger service presents special difficulties. Some railroads, such as the Maine Central and Lehigh Valley, have abandoned all passenger service; others have drastically curtailed passenger service. But such efforts often run into political opposition; the Interstate Staff Committee on the New Haven Railroad [20] warned the line last month that it might lose its state and local tax relief if it cut passenger service too radically. Two other lines operating commuter trains into New York City, the Long Island and New York Central, have launched promotional campaigns designed to gain the good will of passengers. Last summer the Central repainted its Westchester County stations in colors selected in balloting by commuters. The Long Island's passenger cars have been adorned with decals depicting "Dashing Dan," the commuter, running for a train.

Mergers of railroads, in the opinion of management, can put the carriers back on a sound financial footing by ending costly duplication of facilities and by providing more efficient service. Six major rail merger applications are currently before the I.C.C., and if the proposed Pennsylvania-New York Central merger reaches that stage, it will draw more attention than ever to the possible gains in consolidation. However, rail merger proceedings are long and complicated. Fear of being placed at a competitive disadvantage led the Central to oppose applications to link the Baltimore & Ohio with the Chesapeake & Ohio and the the Norfolk & Western with the Nickel Plate. The biggest merger now pending before the I.C.C.—a bid to combine the Northern Pacific, Great Northern, Burlington, and the Spokane, Portland & Seattle into a single 25,000-mile network [21]—may be turned down unless other lines in the territory are able to find merger partners.[22]

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[20] See footnote 9.

[21] The four railroads have estimated that the proposed merger would result in savings of $43 million (before taxes) after five years of consolidated operation.

[22] The three other major applications pending before the I.C.C. are for merger of the Atlantic Coast Line and Seaboard Air Line; competing proposals by the Santa Fe and Southern Pacific for acquisition of the Western Pacific; and merger of the Rock Island and the Chicago, Milwaukee, St. Paul and Pacific. The following lines have merged since 1959: Erie and the Lackawanna to form the Erie-Lackawanna; Minneapolis & St. Louis by sale to the Chicago and North Western; Minneapolis, St. Paul & Sault Ste. Marie, the Wisconsin Central, and the Duluth, South Shore & Atlantic to form the Soo Line. See "Railroad Mergers," *E.R.R.*, 1960 Vol. II, pp. 625-641.

Rail management believes that work rules and practices offer a fruitful field for economy. A 15-member presidential commission, composed of equal numbers of government, labor and management representatives, has been studying railroad work rules since late last year and is scheduled to report its findings by Dec. 1. At issue is management's contention that "featherbedding" is costing the industry $500 million a year. Labor argues, on the other hand, that many disputed practices, such as placing firemen on diesel locomotives, are actually safety measures. Union representatives are opposed in general to any rule changes that would reduce the size of the railway labor force, which today is only half as large as in 1946.[23]

Drive for Tax Changes and Depreciation Revision

Protests against the burden of federal, state and local taxes are frequently voiced by railroad spokesmen. Federal taxes on transportation of passengers and freight, first introduced in World War I, were revived in World War II. The 3 per cent tax on transportation of freight finally was repealed in 1958. Although the passenger tax was cut from 15 to 10 per cent in 1954, Congress so far has resisted strenuous efforts by surface and air carriers to bring about its complete elimination. The railroads contend that the tax is a poor revenue producer[24] and that it has contributed to the decline of rail passenger traffic.

Rail officials complain also of "rank discrimination" in the levying of state and local taxes on railroad property. They assert that most states assess railroad property at a substantially higher proportion of full value than other forms of real property. In Illinois, for example, railroad property was valued in 1957 at 100 per cent for tax purposes while other real property was valued at an average of less than 50 per cent. The Association of American Railroads has estimated that the industry paid out $141 million in "excess taxes" in 1957 because of unfair valuation practices. Accordingly, the railroads have urged federal legislation to outlaw state and local property tax discrimination as an unfair burden upon interstate commerce.

Depreciation rates assigned railroad structures and equip-

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[23] Railroad employees numbered 1,358,838 in 1946 and 780,494 in 1960. See "Featherbedding and Union Work Rules," *E.R.R.*, 1959 Vol. II, pp. 818-824.

[24] Rep. Wilbur D. Mills (D Ark.), chairman of the House Ways and Means Committee, has estimated that the levy will yield $300 million in the current fiscal year.

ment by the Internal Revenue Service are, in the opinion of rail executives, "extraordinarily long and unrealistic." For example, brick buildings owned by railroads have a tax depreciable life of 80 years, steel bridges 75 years, and diesel locomotives 25 years.[25] The average annual depreciation rate for railroad property as a whole comes to about 3 per cent. The railroads contend that the maximum useful life of depreciable property should be shortened to 15 years for rolling stock and to 20 years for structures.

Aim to Offer Diversified Transportation Services

As a means of bettering their financial position, the hard-pressed railroad companies urge that they be allowed to extend their operations and become purveyors of transportation in general. Pointing out that a single freight shipment may be handled by a variety of carriers, they have proposed formation of companies that would be prepared to provide motor, air and water services in combination with rail services or separately. Such companies, it is argued, could offer shippers "one-package" transportation at lower cost and greater speed than anything now possible. Anticipating objections on the ground of antitrust violation, the railroads cite the growth of unregulated carriers to support their contention that "monopoly in transportation is now a practical impossibility."

Blurring of the Boundaries Between Carriers

With certain exceptions, railroads now are restricted to providing transportation by rail. The basis for this policy is found in the Transportation Act of 1940, which provided for "fair and impartial regulation of all modes of transportation . . . so administered as to recognize and preserve the inherent advantages of each." In recent years, however, it has become increasingly difficult to determine just what are the distinctive advantages of the respective carriers. Trucks once were considered primarily haulers of small packages over short distances, but the proliferation of trailer trucks and the construction of interstate highways enabled motor carriers to compete with the railroads for large, long-haul freight shipments. The I.C.C. nevertheless has been unreceptive to proposals to allow particular carriers to offer diversified services. Whether or not a change of policy is in prospect may be indicated by the

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[25] The minimum depreciable life of highway trailers is about eight years, of intercity buses seven years, of airplanes five years.

commission's ruling on two pending cases involving bids by railroads to acquire ownership of barge lines.[26]

"Piggybacking" has already enabled the railroads to achieve a measure of diversification. Also known as T.O.F.C. (trailer-on-flat-car), piggybacking is a term applied to use of trailers which can be both hauled on specially equipped flatcars and operated as highway vans. Piggybacking arrangements vary; the trailers may be owned by the railroads, by motor carriers or by shippers, and service may be door-to-door or merely terminal-to-terminal. The country's railroads hauled 554,115 piggyback carloads in 1960, an increase of 35 per cent over the previous year and more than three times the 1955 total. Nevertheless, piggyback traffic in 1960 accounted for only 1.8 per cent of total carloadings.[27]

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[26] Hearings are to open Dec. 5 on the application of the Norfolk & Western and Chesapeake & Ohio railroads to acquire ownership of the Island Creek Fuel and Transportation Co. Also awaiting an I.C.C. ruling is a 1959 application by the Illinois Central and Southern Pacific railroads to purchase the John I. Hay Co., a common-carrier barge line operating on the Mississippi River and Gulf Intracoastal Waterway.

[27] A 1958 amendment to the Interstate Commerce Act has been an important factor in the success of piggybacking. The amendment provides that rates charged by a carrier "shall not be held up to a particular level to protect the traffic of any other mode of transportation." This provision has enabled the I.C.C. to approve rate reductions sought by the railroads for piggyback traffic.